

## Message Text

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PAGE 01 LISBON 03006 01 OF 02 151718Z  
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
-----151721Z 093189 /47

O 151644Z APR 77  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC IMMEDIATE 0972

S E C R E T SECTION 1 OF 2 LISBON 3006

EXDIS

DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: GDS  
TAGS: ECON, EFIN, PO  
SUBJ: PORTUGAL'S 1977 BALANCE OF PAYMENTS: A FURTHER  
COMMENTARY

REF: (A) LISBON 2002, (B) LISBON 2958

1. EMBASSY OFFERS FOLLOWING ADDITIONAL COMMENTARY ON PORTUGAL'S  
POSSIBLE 1977 B/P, TAKING INTO ACCOUNT REF B AND CONVERSATIONS  
SUBSEQUENT TO SUBMISSION OF REF A.

2. MERCHANDISE ACCOUNT: EMBASSY'S PROJECTION OF \$1.95 BILLION  
1977 MERCHANDISE ACCOUNT DEFICIT WAS PROBABLY OPTIMISTIC.  
SEVERE DRAWDOWN OF STOCKS AND DECAPITALIZATION DURING 1974-76, AS  
WELL AS NEED FOR EXTENSIVE INDUSTRIAL MODERNIZATION, IMPLIES  
VERY HEAVY IMPORTS TO ACHIEVE THREE TO FOUR PERCENT GNP GROWTH  
THIS YEAR. IN ADDITION, EXTERNAL PRESSURES ARE OBLIGING GOP  
TO ATTENUATE RECENTLY ANNOUNCED IMPORT QUOTAS AND TO EASE  
ADMINISTRATIVE CONTROL; AGRICULTURAL IMPORTS WILL LIKELY BE  
HIGHER THAN PREVIOUSLY ANTICIPATED; GOP FINANCIAL SUBSIDIES  
FOR BASIC CONSUMER GOODS AND TECHNICALLY BANKRUPT  
COMPANIES CONTINUES AT HIGH LEVEL; SHARPLY INCREASED GASOLINE  
PRICES DO NOT SEEM TO HAVE DEPRESSED CONSUMPTION SIGNIFI-

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CANTLY. PORTUGUESE PRODUCERS HAVE MOVED RATHER TIMIDLY  
INTO EXPORT MARKET; AND CONTINUED DEVALUATION EXPECTATIONS  
AND RAPIDLY RISING EXTERNAL PRICES ARE CAUSING SPECULATIVE  
BUYING. GIVEN THESE CONSIDERATIONS, GOP MAY BE ABLE TO  
DEPRESS TRADE DEFICIT ONLY SLIGHTLY BELOW THAT OF 1976.  
WE WOULD NOW PLACE IT AT \$2.025, I.E. \$75 MILLION ABOVE  
REF A PROJECTION.

3. TOURISM: EMBASSY'S PROJECTION OF \$250 MILLION NET TOURISM EARNINGS APPEARS REALISTIC. THIS SECTOR UNDOUBTEDLY WILL RECOVER SIGNIFICANTLY IN 1977. INITIAL RECOVERY, HOWEVER, WILL BE SUBSTANTIALLY LARGER IN THE NUMBER OF TOURISTS THAN IN DOLLAR RECEIPTS. AMONG FACTORS DEPRESSING NET FOREIGN EARNINGS ARE: PORTUGUESE AGENCIES OFFERING COMPARATIVELY INEXPENSIVE TOUR PACKAGES IN ORDER TO RE-ENTER MARKET; LARGEST TOURIST INCREASES WILL BE IN LOW SPENDING VISITORS FROM SPAIN; CONSIDERABLE HOTEL SPACE WILL BE OCCUPIED BY REFUGEES AND PORTUGUESE TOURISTS UNABLE TO TRAVEL ABROAD; NEW ESCUDO EXCHANGE RATE; AND TOURIST INDUSTRY'S STRUCTURAL LIMITATIONS. GOP MIGHT BE ABLE TO INCREASE NET EARNINGS THIS YEAR BY FURTHER RESTRICTING PORTUGUESE TOURISM ABROAD, AS IN 1976, BUT SIGNIFICANT ADDITIONAL SAVING IS UNLIKELY. IN FACT, THE PUBLIC'S GREATER ACCESS TO ITS BANK DEPOSITS AND THE SHIFT IN NATIONAL INCOME FROM LOW INCOME TO MEDIUM LEVEL INCOME SECTORS WILL TEND TO ENCOURAGE PORTUGUESE TOURISM ABROAD.

4. TRANSFERS: EMBASSY PROJECTION OF \$980 MILLION FOR PRIVATE TRANSFERS MAY BE SLIGHTLY PESSIMISTIC. WE WOULD BE PREPARED TO RAISE IT TO \$1.02 BILLION, GIVEN ESTIMATED 1976 RESULTS (REF B). WE WOULD NOT TEND TO RAISE IT ANY FURTHER FOR FOLLOWING REASONS: FEARS OF FURTHER ESCUDO DEVALUATION ARE VERY STRONG; PORTUGUESE BANKING SYSTEM HAS NOT IMPLEMENTED SPECIAL LOAN PROGRAMS AND FOREIGN CURRENCY DENOMINATED ACCOUNTS FOR IMMIGRANTS; OUTFLOWS OF NEW IMMIGRANTS  
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HAS BEEN VERY SMALL FOR PAST THREE YEARS; AND WESTERN EUROPEAN ECONOMIES, THE SOURCE OF MOST TRANSFER PAYMENTS, DOES NOT PROMISE TO EXPAND RAPIDLY THIS YEAR.

5. SHORT-TERM CREDITS: EMBASSY PROJECTION OF \$200 MILLION IN SHORT-TERM CREDITS APPEARS PESSIMISTIC. GOP REGULATIONS REQUIRING FOREIGN FINANCING FOR NUMEROUS IMPORTS APPEARS TO HAVE BEEN RATHER EFFECTIVE. COMMERCIAL BANKS HAVE ALREADY SECURED MORE THAN \$160 MILLION IN CREDITS, OVERWHELMING MAJORITY OF WHICH ARE SHORT-TERM. BOTH BANKING SYSTEM AND BANK OF PORTUGAL, HOWEVER, BECOMING QUITE CONCERNED BY BURDEN THIS INCREASE REPRESENTS, ESPECIALLY SINCE SHORT-TERM LIABILITIES GREW SIGNIFICANTLY IN 1976. LIKELIHOOD EXISTS, THEREFORE, THAT GROWTH RATE FOR THESE CREDITS MAY DIMINISH IN COMING MONTHS. EMBASSY SUGGESTS NEW TOTAL OF \$275 MILLION FOR ENTIRE YEAR, AN INCREASE OF \$75 MILLION OVER REF A PROJECTION.

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O 151644Z APR 77  
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TO SECSTATE WASHDC IMMEDIATE 0973

S E C R E T SECTION 2 OF 2 LISBON 3006

EXDIS

DEPT. PASS TREASURY FOR SYVRUD

6. MEDIUM AND LONG TERM CAPITAL: EMBASSY MAY HAVE BEEN SOMEWHAT OPTIMISTIC FOR THIS ACCOUNT. FOLLOWING NEGATIVE FACTORS SHOULD BE CONSIDERED. DEVALUATION EXPECTATIONS AND CAPITAL FLIGHT REMAIN HIGH. IN FACT, CAPITAL FLIGHT MAY EXCEED 1976 LEVELS BECAUSE OF: PUBLIC'S GREATER ACCESS TO BANK DEPOSITS; SHIFTS IN NATIONAL INCOME; DECREASING DOMESTIC AVAILABILITY OF DURABLE GOODS; ACCELERATING INFLATION RATE, ETC. GOP COULD RETARD THIS OUTFLOW, AS WELL AS STIMULATE MORE INFLOW, BY SHARPLY RAISING INTEREST RATES. IT IS MOST UNLIKELY TO DO SO SINCE SUCH A MEASURE WOULD BE HARSHLY CRITICIZED BY BOTH THE LEFT AND RIGHT SIDES OF THE ECONOMIC/POLITICAL SPECTRUM. FOR THE TIME BEING, EMBASSY PREFERS TO MAINTAIN ITS PROJECTION OF A \$70 MILLION DEFICIT FOR INVESTMENTS. IN OTHER AREAS GOP WILL PROBABLY USE \$30 MILLION LESS IN CCC AND PL-480 CREDITS THAN INDICATED REF A; 9-MONTH \$100 MILLION BIS LOAN MUST BE REPAYED THIS YEAR; AND \$40 MILLION CENTRAL BANK LOAN (PARA IV D, REF A) APPARENTLY MUST ALSO BE AMORTIZED IN 1977. GOP NEGOTIATIONS WITH PRIVATE SECTOR MAY HELP PARTIALLY OFFSET THESE NEGATIVE MOVEMENTS. DILLON READ IS ORGANIZING \$50 MILLION PROJECT LOAN. IF THIS EFFORT SUCCEEDS, IT COULD LEAD TO A SECOND OPERATION OR ENCOURAGE INDIVIDUAL BANKS TO INITIATE TERM LENDING.

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GIVEN LIKELIHOOD OF DILLON READ SUCCESS, WE ARE PREPARED TO ADD ADDITIONAL \$75 MILLION TO CAPITAL INFLOW. FURTHER-MORE, WE SUGGEST AN ADDITIONAL \$50 MILLION FOR SUPPLIER CREDITS BECAUSE OF GOP REGULATIONS REQUIRING FOREIGN FINANCING FOR NUMEROUS CAPITAL GOODS IMPORTS. NET CHANGES OF THESE MEDIUM AND LONG-TERM FLOWS IS TO INCREASE PROSPECTIVE DEFICIT BY \$45 MILLION.

7. CONCLUSION: TAKING ALL THE FOREGOING INTO ACCOUNT, THE POTENTIAL DEFICIT MAY BE INCREASED ABOVE LEVEL SHOWN IN REF A BY \$120 MILLION (I.E. \$75 MILLION ON TRADE ACCOUNT AND \$45 MILLION ON MEDIUM AND LONG-TERM CAPITAL ACCOUNT). ON THE OTHER HAND, POTENTIALLY HIGHER INFLOWS OF \$120 MILLION (I.E. \$30 MILLION ON TRANSFERS AND \$75 MILLION IN SHORT-TERM CREDITS) WOULD REDUCE THIS POTENTIAL ADDITION TO \$15 MILLION. REMAINING DEFICIT GAP INDICATED PARA V REF A WOULD THUS RISE FROM \$859 TO \$874 MILLION. BANK OF PORTUGAL, HOWEVER, NOW PLANNING TO SELL \$250 MILLION IN GOLD RATHER THAN \$100 MILLION, THEREBY REDUCING UNCOVERED GAP TO \$724 MILLION. GOP APPARENTLY IS WILLING TO OFFER ADDITIONAL GOLD, BUT EUROPEAN CENTRAL BANKS AND BANK OF PORTUGAL'S SALES AGENT (BIS) APPARENTLY ARE RESISTING SUCH AN INCREASE.  
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